December 17, 2021

Yolanda Richardson, Secretary
California Government Operations Agency
915 Capitol Mall, Suite 200
Sacramento, CA 95814

Dear Secretary Yolanda Richardson,

In accordance with the State Leadership Accountability Act (Leadership Accountability), the State Teachers' Retirement System submits this report on the review of our internal control and monitoring systems for the biennial period ending December 31, 2021.

Should you have any questions please contact Julie Underwood, Chief Financial Officer, at (916) 414-1678, junderwood@calstrs.com.

GOVERNANCE

Mission and Strategic Plan

Background

The California State Teachers' Retirement System (CalSTRS) administers a hybrid retirement system consisting of a defined benefit plan, two tax deferred defined contribution plans, a postemployment benefit plan and a fund used to account for ancillary activities associated with the deferred compensation plans and programs.

CalSTRS provides pension benefits, including disability and survivor benefits, to California full-time and part-time public-school teachers from prekindergarten through community college and certain other employees of the public school system. The Teachers' Retirement Law (California Education Code Section 22000 et seq.), as enacted and amended by the California Legislature and the Governor, established these plans with CalSTRS as the administrator. The terms of the plans may be amended through legislation.

Under California Constitution, Article 16, Section 17, the Teachers' Retirement Board (TRB) has plenary authority and fiduciary responsibility for investment of moneys and administration of the system. It is composed of 12 members:

- Five members appointed by the Governor and confirmed by the Senate for a term of four years: one school board representative, one retired CalSTRS member and three public representatives.
- Four ex officio members who serve for the duration of their term in office: the State Superintendent of Public Instruction, the California State Treasurer, the California State Controller and the Director of Finance (who is appointed by the Governor and confirmed by the Senate).
- Three member-elected positions representing current educators.

The CalSTRS 2019-22 Strategic Plan was adopted by the TRB March 27, 2019. CalSTRS is currently in the process of developing the next strategic plan which will cover fiscal years 2022-25. The strategic plan provides overarching goals and objectives to guide our collective direction and measures to enable our success. Progress on achieving our strategic plan is reported and evaluated annually through an accomplishments report to the TRB. CalSTRS establishes an annual business plan based on a TRB-approved multi-year strategic plan. The annual business plan includes a Strengths, Weaknesses, Opportunities and Threats (SWOT) analysis and goals and objectives built on the foundation of CalSTRS' mission, vision and core values. The paragraphs that follow outline these components.

Our Mission

Securing the financial future and sustaining the trust of California's educators.

Our Vision

Your reward – A secure retirement

Our reward – Getting you there

Our Core Values

The CalSTRS core values are a set of attitudes, beliefs and behaviors that define CalSTRS and its employees.

- CUSTOMER SERVICE—We never compromise on quality as we strive to meet or exceed the expectations of our customers.
- ACCOUNTABILITY—We operate with transparency and accept responsibility for our actions.
- LEADERSHIP—We model best practices in our industry and innovate to achieve higher standards.
- STRENGTH—We ensure the strength of our system by embracing a diversity of ideas and people.
- TRUST—We conduct ourselves with integrity, acting ethically in every endeavor.
- RESPECT—We respect the needs of our members, co-workers, and others, treating everyone with fairness, honesty and courtesy.
- STEWARDSHIP—We recognize our fiduciary responsibility as the foundation for all decision-making.

Board Strategic Goals

The strategic plan has four goals with supporting objectives and measures of success.

Goal 1: Financial/Governance - Ensure a well-governed, financially sound trust fund.

a. Achieve full funding of the Defined Benefit Program by June 30, 2046.
b. Integrate CalSTRS' sustainable investment and stewardship strategies, which support long-term value creation and educate and inform interested parties.
c. Leverage investment cost information to yield long-term benefits.
d. Implement the CalSTRS collaborative model leveraging all of CalSTRS resources.
e. Enhance board meeting effectiveness and efficiency.

Goal 2: Digital Transformation - Leverage technology to securely transform business and service delivery models to maximize operational efficiency.

a. Implement and integrate a highly adaptive pension administration system.
b. Secure the confidentiality and integrity of data and member information.
c. Enhance business resiliency capabilities.
d. Explore advanced technology to securely gain business agility and enhance user experience.

Goal 3: Member/Employer - Strengthen partnerships and services to members, employers and stakeholders.

a. Educate and inform CalSTRS constituent groups on strategic priorities.
b. Enhance collaborative partnerships with employers to increase alignment on key initiatives and increase awareness about the value of CalSTRS defined benefit plan.
c. Increase the accuracy, completeness and timeliness of employer reporting.
d. Provide educational opportunities to improve the retirement readiness of CalSTRS' members.
e. Grow Pension2 participation.

Goal 4: Organizational Strength - Grow capacity and enhance efficiency in alignment with the mission and vision.

a. Develop board and staff competencies to respond to changing business environments.
b. Improve business processes and reduce costs.
c. Drive adoption of transforming business processes and technology.
d. Hire, develop and retain staff to meet the needs of our changing business models and growth expectations.

Control Environment

As previously mentioned, CalSTRS reports to the TRB. The TRB has exclusive control over the administration of the retirement system plans and the investment of funds, makes rules, sets policies, and has the authority to hear and determine all facts pertaining to application for benefits under the retirement system. CalSTRS staff provides regular updates on the administration of the pension system and the investment of assets to the TRB and its five committees.

CalSTRS requires regular reviews and updates of its policies. As part of that exercise, procedure and internal control documents are reviewed and updated periodically. As part of normal operations, program areas also have quality assurance units that verify internal control effectiveness.

CalSTRS' senior management reports enterprise risk and risk management strategies to the TRB semi-annually. The TRB provides risk oversight generally and through various committees. Specifically, the Enterprise Risk Management team, working in conjunction with the Risk Champions Network and the Executive Risk Committee, have the responsibility of monitoring the organization's internal control effectiveness as part of the overall risk management efforts. The following represent many of the activities CalSTRS performs to ensure its internal controls are effective and managing risks as designed.

• Annually, CalSTRS maintains risk and control matrices for critical processes. These matrices are designed to identify these processes, risks to the processes (including fraud) and the key

control over the functions in the process flow.
- The Enterprise Compliance Services team works with various quality assurance units throughout CalSTRS to ensure critical areas meet legal and regulatory requirements as well as adhere to organizational policies.
- Annually, CalSTRS requires that all staff complete an online information security training.
- CalSTRS Information Security and Enterprise Data Management offices provide active management for various cyber and data risk.
- Staff are required to take online data management training to mitigate risk to CalSTRS' data every two years. New employees are also required to take data management training.
- CalSTRS provides all new employees with Accountability and Internal Controls training within the first year of employment. The chief financial officer regularly attends these trainings as a guest speaker.
- Annually, CalSTRS requires that all staff complete web-based Risk and Internal Controls Awareness training.
- Annually, an external auditor reviews CalSTRS internal controls as part of its audit of the financial statements. Additionally, CalSTRS Audits Services performs audits and reviews of various internal controls as part of completing its annual audit plan.
- An external auditor reviews the internal controls of select business areas in the Investments Branch, reviewing the entire branch every three years.
- Management addresses all concerns raised through internal and external audits as soon as possible. Management regularly reports its progress, addressing weakness identified through the audit process, to the Audits and Risk Management Committee.

Management established and promotes CalSTRS' core values. Several ethics or whistleblower channels are available to all CalSTRS employees. The internal channel is the Compliance and Ethics Hotline. The external channel is the California State Auditor Whistleblower Hotline.

CalSTRS developed its current workforce plan covering fiscal years 2018-22 in November 2018. The plan reflects CalSTRS' commitment to growing an engaged, highly skilled and diverse workforce. The underlying structure of the plan recognizes nearly 80% in accomplishments from the 82 recommendations initiated from the previous workforce plan. It also introduces six new strategic recommendations through data-driven examination of the current workforce and alignment with CalSTRS' Strategic and Business Plans. CalSTRS recognizes that strategic planning is critical to meeting the workforce changes of the future and plays a vital role to the organization's success.

Under the 2014-2018 strategic plan, (under which the current workforce plan was created) Strategic Goal 4: Workforce Transformation, was to "grow an engaged, highly skilled and diverse workforce." The CalSTRS Workforce Plan is a high-level analysis of the organization's workforce to address current and future needs. In alignment with CalSTRS' mission, vision and core values, it is the purpose of Human Resources to support the total operation in meeting its goals through its most valuable resource—its PEOPLE.

All employees are annually evaluated on performance, based on CalSTRS' core values and core competencies. Accountability is one of our core values. As such, all new hires are required to take a classroom training on accountability and CalSTRS core values.

Information and Communication

Reliable and Relevant Sources

CalSTRS Enterprise Strategy Management is responsible for organization-wide strategic management, business planning and enterprise performance, research and development, corporate sustainability and continuous improvement processes. This group has responsibility to collect and communicate relevant and reliable information for operational, programmatic and financial decision making. CalSTRS' individual business areas work together to increase our ability to integrate performance data and conduct research to identify enterprise-wide issues used to inform the TRB and executive staff, to arrive at sound conclusions and make educated decisions. Together, these functions are instrumental in meeting and reporting on strategic goals for the organization. Below are some of the vehicles used to share the reliable and relevant information collected by this group.

- The Operations Performance Review is currently a quarterly meeting attended by executives and directors who provide direct and indirect support to CalSTRS' operational processes, to engage in an open and frank dialogue regarding achievement of key performance indicators at a reasonable cost, as set by the Executive Team.
- The Customer Service Performance Review is currently a quarterly meeting attended by directors and executives who provide direct services to CalSTRS' customers and stakeholders such as our members, their beneficiaries, and employers. The Customer Service Performance Review is designed to monitor progress on the TRB Service Performance Objectives and plan improvements related to the services provided to our members and other stakeholders.
- The organization's director-level managers currently meet monthly in the Director's Forum.
- The Performance Review is currently held quarterly and attended by all management, where information is shared on division performance in the prior quarter and guidance is provided for action in future quarters.
- Management provides an annual report of accomplishments to the TRB.

Internal Communication

CalSTRS has several additional vehicles to share information regarding results of monitoring activities with management and the rest of the organization. To highlight some examples: the risk champions currently meet monthly, and the Executive Risk Committee currently meets quarterly to share experiences or concerns amongst senior management and review the quarterly enterprise risk matrix. In addition, management meets quarterly in leadership forums to provide training opportunities and venues to discuss current areas of concerns or sensitivity. CalSTRS' chief executive officer also provides information to staff through Town Hall meetings. Finally, CalSTRS utilizes all-staff emails and an intranet site to share information to staff at all locations.

External Communication

CalSTRS constantly maintains and updates content on the CalSTRS.com website with information for our members and the public. We hold regular TRB meetings which are streamed to the public via the CalSTRS.com website. Members of the public are currently welcome to attend the meetings virtually. Once on-site meetings resume, the public will again be able to attend in person as permitted by local COVID-19 regulations.

CalSTRS externally releases several annual reports including the Actuarial Valuation, Annual Comprehensive Financial Report, CalSTRS audited Financial Statements, Corporate Governance

Annual Report, Green Initiative Task Force Report and Sustainability Report. Additional reports include the Demographic Study of CalSTRS members, Health Care and Retirement Security, Diversity in the Management of Investments, Retirement Readiness Assessment Report, and Investing in a Time of Climate Change Study.

MONITORING

The information included here discusses the entity-wide, continuous process to ensure internal control systems are working as intended. The role of the executive monitoring sponsor includes facilitating and verifying that the State Teachers' Retirement System monitoring practices are implemented and functioning. The responsibilities as the executive monitoring sponsor(s) have been given to: Phillip Burkholder, Financial Accountant III; Julie Underwood, Chief Financial Officer; and Cassandra Lichnock, Chief Executive Officer.

CalSTRS senior management reports enterprise risks and risk management strategies to the TRB semi-annually. The TRB provides risk oversight generally and through various committees. The Enterprise Risk Management team, working in conjunction with the Risk Champions Network and the Executive Risk Committee, have the responsibility of monitoring the organization's internal control effectiveness as part of the overall risk management efforts. The following represent activities CalSTRS performs to ensure its internal controls are effective and managing risks as designed.

- Annually, CalSTRS maintains risk and control matrices for critical processes. These matrices are designed to identify these processes, risks to the processes, and the key control over the functions in the process flow.
- The Enterprise Compliance Services team works with various quality assurance units throughout CalSTRS to ensure critical areas meet legal and regulatory requirements as well as adhere to organizational policies.
- CalSTRS Information Security and Enterprise Data Management offices provide active management for various cyber and data risk.
- Staff are required to take online data management training to mitigate risk to CalSTRS' data every two years. New employees are also required to take data management training.
- CalSTRS requires all new employees complete an Accountability and Internal Controls training within the first year of employment. The chief financial officer regularly attends this training as a guest speaker.
- Annually, CalSTRS requires all staff complete a web-based Risk Awareness and Internal Controls Training.
- Management addresses all concerns raised through Internal and External audits as soon as possible. Management regularly reports its progress addressing weaknesses identified through the audit process to the TRB.
- Upon hire and annually thereafter, CalSTRS requires all staff to complete an online information security training.

RISK ASSESSMENT PROCESS

The following personnel were involved in the State Teachers' Retirement System risk assessment process: executive management, middle management, front line management, and staff.

The following methods were used to identify risks: brainstorming meetings, employee engagement

surveys, ongoing monitoring activities, audit/review results, other/prior risk assessments, external stakeholders, questionnaires, consideration of potential fraud, performance metrics, and other.

The following criteria were used to rank risks: likelihood of occurrence, potential impact to mission/goals/objectives, timing of potential event, potential impact of remediation efforts, tolerance level for the type of risk, and other.

Risk Identification

CalSTRS' Enterprise Risk Management policy requires each branch executive to perform an annual branch risk assessment. Risk champions from each branch lead their area's risk assessment. Each branch's risk assessment considers a variety of risks including but not limited to errors, omissions, fraud, etc. Beginning in 2020, the risk assessments are required to be recorded in a standardized tool and delivered to the Enterprise Risk Management team upon completion. The standardized tool includes columns to collect information on risks, inherent and residual risk scores, internal controls, and fraud and compliance related risks.

Risks are shared and discussed at the Risk Champions Network meetings. The Risk Champions Network recommend which risks should be considered at the enterprise level. The Enterprise Risk Management team, with input from the risk champions, compile the quarterly risk matrix and heat map and presents the results of this process to the Executive Risk Committee which currently meets quarterly. The Executive Risk Committee has final authority of which risks are recorded and tracked in the enterprise level matrix and TRB reports. Once the Executive Risk Committee has determined what risks require management at the enterprise level, they design mitigation strategies and allocate the necessary resources. CalSTRS executives report enterprise level risks semi-annually to the TRB in open session.

Risk Ranking

Currently CalSTRS organizes risks into 10 risk categories: Pension Funding—Investments, Pension Funding—Actuarial, Pension Funding—Contribution Rates, Pension Administration, Financial Reporting, Information Security, Operational, Reputational, Transformational Change and Third Parties. Each of the 10 risk categories contains multiple sub-risks. The sub-risks are scored using three metrics: impact, probability and velocity. Each metric is based on a five-point scale with specific criteria defining each level. Risks are evaluated both inherently (without internal controls in place) and residually (after internal controls).

The three metrics are combined in a formula to calculate a single risk score based on a 50-point scale. Risk scores are divided into five levels based on the score value: very high (41-50), high (31-40), medium (21-30), low (11-20) and very low (1-10). Each sub-risk is also given a weighted percentage within each risk category. Finally, the 10 risk categories are plotted on a heat map using a calculation of all the sub-risk scores and prioritization weights to show overall priority and scale. The heat map placement is reviewed by the Executive Risk Committee before presentation to the TRB.

RISKS AND CONTROLS

Risk: Funding Risk

The risk that the CalSTRS pension fund may not achieve full funding by 2046 in accordance with the

funding plan as a result of below target investment returns, long term actuarial experience differing from assumptions or the inability or unwillingness to appropriately adjust contribution rates.

Control: A - Funding Risk: Investment Return

Coordinate the timing of the asset/liability study and experience study to ensure that the two are in lock-step and that the actuarial investment assumptions reflect the asset allocation policy. (Ongoing)

Continuous oversight and monitoring of fund and asset class strategies and positions using risk management tools and platforms designed for the unique nature of the underlying securities. (Ongoing)

Monitor costs and operate the CalSTRS Plan in an efficient and cost effective manner to reduce the drag on fund performance. (Ongoing)

Control: B - Funding Risk: Complex Investment Environment

Recruit and retain well qualified staff with a diverse range of skills. (Recurring)

Continuously engage with our institutional partners and the academic community regarding best practices in risk management. Review suitability and implementation of best practices at CalSTRS. (Ongoing)

Deploy cross functional/asset class teams with a wide range of expertise and knowledge to review new tools and strategies prior to implementation. (Ongoing)

Cross-functional teams meet regularly to identify the Pillars Project scope, priorities, resources and timeline for business services including, Human Resources, Procurement, Travel, Financial Services, Communication, Information Technology and Legal. (Recurring)

Control: C - Funding Risk: Actuarial Monitoring and Reporting

Closely monitor funding levels and adequacy of contributions as part of an annual report to the board reviewing CalSTRS funding levels and risks. Risks to funding levels are also reported in the semi-annual Enterprise Risk Management reports. (Recurring)

Conduct regular actuarial experience studies to assess the reasonableness of actuarial assumptions. Actuarial experience studies are generally performed every five years. (Recurring)

Assess funding levels and adequacy of contributions through the annual actuarial valuation and recommend contribution rate adjustments as necessary to achieve full funding by 2046. (Ongoing)

Monitor funding levels and adequacy of contributions as part of annual report to the TRB reviewing CalSTRS funding levels and risks. (Ongoing)

Control: D - Funding Risk: Contribution Rates

Closely monitor funding levels and adequacy of contributions through ongoing monitoring of plan experience, focusing on investment performance, size of teacher population in California and longevity. (Ongoing)

Formally report to the board on the progress of the funding plan as regularly scheduled twice a year. Once in the spring through the actuarial valuation of the DB program and once in the fall through the annual review CalSTRS funding levels and risks report. Report to the board as needed through other board meetings, offsites and other communication. (Recurring)

Confer with relevant stakeholders concerning contribution and liability information. (Ongoing)

Ongoing education of board members on the CalSTRS funding plan and the importance of full funding through the presentation of the annual actuarial valuation reports and the Annual Review of Funding Levels and risks report. (Recurring)

Risk: Workforce and Work Location

The risk that CalSTRS lacks the ability to meet critical business functions or maintain service levels due to recruitment challenges, potential loss of subject matter experts, staff or leadership turnover, execution of key workforce projects or the ability to support the work location of staff.

Control: A - Workforce and Work Location: Recruitment

Establish and/or modify classification specifications to align with needed competencies within the organization. (June 2022)

Continue to enhance recruitment strategy to attract a fully diversified workforce. (Ongoing)

Control: B - Workforce and Work Location: Retention

Training and Development, Job Shadowing, or Rotational Assignment opportunities. (Ongoing)

Acquisition of temporary positions to support knowledge transfer transition gap. (Ongoing)

Monitor organization service level through organizational performance reviews. (Ongoing)

Ongoing diversity and inclusion training and awareness. (Ongoing)

Control: C - Workforce and Work Location: Succession Planning

Utilize the Leadership Development Program. (Ongoing)

Promote staff development academies and series. (Ongoing)

Support the manager onboarding strategy for leadership positions. (Ongoing)

Continue identifying critical functions and business knowledge loss and determine who will be the back-up. (Ongoing)

Control: D - Workforce and Work Location: Security, Health and Safety

Roll out optional safety training to all staff. (Q2 FY 2021/22)

Ongoing management and oversight of the access to all CalSTRS facilities. (Ongoing)

Continue to enhance employee wellness program which supports employees while working at CalSTRS facilities or remotely. (Ongoing)

Continue performing annual fire drills and training for the building emergency response team (BERT) at all CalSTRS facilities. (Recurring)

Revise the Physical Security Policy. (December 2021)

Control: E - Workforce and Work Location: Pillars Project and Collaborative Model

Align new positions/resources to support future state of investment branch. (Recurring)

Adhere to Pillars Project charters and governance by performing assessment of current activities and improve efficiencies to ensure organization-wide support of the Collaborative Model. (Ongoing)

Regularly report to the Investment Committee on the Pillars Project to confirm proper oversight of activities. (Recurring)

Engaging with the Board's consultant to ensure methodology is aligned with industry practice across performance, cost and savings reporting. (Ongoing)

Control: F - Workforce and Work Location: Blended Working Model

Change management including communication and implementation plan. (January 2022)

Assess staff's return to the office in the fall and determine where adjustments may be needed. (Ongoing)

Technology Services to continue to proactively and upon request, evaluate and provide tools and equipment for communication and collaboration to support CalSTRS. (Ongoing)

Monitor strategic goals and operational performance to ensure objectives are being met and key performance measures are stable. (Ongoing)

Risk: Information Security

The risk that loss of information security or compliance violations due to unauthorized or unintentional breaches could result in operational disruption, financial loss and/or reputational damage.

Control: A - Information Security: Monitoring

Conduct annual independent cybersecurity assessment, maintain incident response plan and conduct internal Information Security Office audits focused on cybersecurity. (Ongoing)

Stay current with security threats, zero-day attacks and industry trends. (Ongoing)

Conduct ISO internal audits as it relates to Cybersecurity. (Ongoing)

Regularly report on cyber security to the TRB in closed session board meetings. (Ongoing)

Control: B - Information Security: Compliance

Conduct annual Information Security Office compliance assessments to test adherence to security policy standards. (Ongoing)

Establish information security policies to ensure security requirements, controls, and responsibilities are defined. (Ongoing)

Maintain the Incident Response Plan. (Ongoing)

Control: C - Information Security: Staff Education

Expand and enhance awareness of information security. (Ongoing)

Conduct annual information security awareness online training for all employees. (Ongoing)

Annual affirmation of CalSTRS Confidentiality, Non-Disclosure, and Acceptable Use Agreement by all employees. (Ongoing)

New employee onboarding - Welcome Aboard, security awareness handbook, security awareness training course, affirmation of CalSTRS Confidentiality, Non-Disclosure, and Acceptable Use Agreement. (Ongoing)

Educate remote workforce – regular education on approved resources, acceptable use, and secure computing practices. (Ongoing)

Quarterly simulated phishing exercises sent to staff and management. (Ongoing)

Risk: New Pension Administration System

The risk that CalSTRS is unable to successfully implement a new pension administration system (Pension Solution) and transform the associated data and business processes within the established scope, schedule and budget.

Control: A - New Pension Administration System: Project Oversight

Contract with Independent Project Oversight Committee and Independent Verification and Validation consultants who regularly report to the TRB about project status, risks and issues. (Recurring)

Dedicated project director oversees all Pension Solution project activities. (Ongoing)

Regular TRB and executive reporting. (Ongoing)

Control: B - New Pension Administration System: Project Management

Complete data preparation analysis project, define conversion policies and approach for identified data anomalies, and complete pre-conversion data cleansing. (Ongoing)

Actively administer Pension Solution risk mitigation strategies as outlined in the Risk Mitigation Log. (Ongoing)

Utilize Independent Project Oversight (IPOC) and Independent Verification and Validation (IV&V) Consultants. (Ongoing)

Control: C - New Pension Administration System: Stakeholder Acceptance

Perform Change Readiness Assessments for staff and employers. (Recurring)

Implementation of recommendations from readiness assessments and best practices from Enterprise Transition Planning consultants. (Ongoing)

Increase awareness and desire for staff and stakeholders throughout the project lifecycle. (Ongoing)

Increase the Change Leadership competency by providing change management training, tools and resources to business area leadership teams. (Ongoing)

Increase the number of employer audits using data analytics and limited scope reviews to ensure delivery of timely and accurate benefits to our members. (Recurring)

Control: D - New Pension Administration System: Maintain Legacy Pension System (START)

Technology Services staff to follow the CalSTRS System Development Life Cycle (SDLC) methodology and processes, which contains appropriate internal controls related to the implementation of START application changes. (Recurring)

Ensure a roll-back plan is included for all START system change requests. Staff will utilize roll-back plan to restore system to prior state in cases where implementation of an application change is unsuccessful. (Ongoing)

Conduct disaster recovery (DR) exercises at OTECH and Quest to validate DR solutions are operational. (Recurring)

Conduct a monthly Allowance Roll Regression Test to confirm the monthly process to calculate benefit recipient payments and deductions is operating as expected before the production run. (Ongoing)

Monitor daily START batch jobs and reports to assure successful runs as well as on-going monitoring of the START technical environments to assure proper systems operations. Continue providing monthly reports to Division management. (Ongoing)

Suspend significant system enhancements to current system. (Ongoing)

Maintain existing staff resource levels for maintenance and required operational updates of START. (Ongoing)

Risk: Third Parties

The risk that CalSTRS fails to appropriately manage risks associated with third parties which could result in operational disruption, financial loss, reputational damage, compliance violations or failure to reach strategic goals.

Control: A - Third Parties: Program Governance

Establish governance structure for CalSTRS Third Party Risk Management Program. (In Progress)

Maintain current decentralized third party risk management activities as the program is developed. (Ongoing)

Risk: Disaster Recovery/Business Continuity

There is a risk that CalSTRS may not be able to quickly and/or fully recover business operations in the event of a disaster which could result in a delay in benefit payments, business operations disruption and/or missed investment opportunities.

Control: A - Disaster Recovery: Business Continuity Plan

Business areas that identify critical business processes in the Business Impact Analysis (processes with less than 32-day time sensitivities) work with the Business Continuity team to create a Business Continuity Plan. The Business Continuity Plan is a guidebook for the teams to help perform their critical business processes during or after a disruption. Business Continuity meets with all team leads semi-annually to provide them with Business Continuity-related updates and kick off the Business Continuity Plan update process. (Ongoing)

The Information System Recovery Plan documents comprehensive procedures to quickly and effectively recover critical CalSTRS systems/applications following a service disruption. The Information System Recovery Plans are reviewed, updated and approved annually. (Recurring)

Control: B - Disaster Recovery: Business Impact Analysis

Business Continuity Team conducts an organization-wide business impact analysis in order to gather information about CalSTRS' business and system recovery needs. Information gathered from the Business Impact Analysis is reviewed and approved by executives and filtered into the Business Continuity Plans. The Business Impact Analysis process is performed annually. (Ongoing)

Control: C - Disaster Recovery: Business Continuity Functional Exercises

Business Continuity and Disaster Recovery conduct an annual exercise with all CalSTRS critical business areas to test and verify that their business functions and the supporting Information Technology systems will be operational following a disruptive event or disaster. The exercise tests the functionality of the Disaster Recovery Information Technology solutions at our Business

Resumption Center using a secondary infrastructure. (Recurring)

Control: D - Disaster Recovery: Technology Recovery Plan

Implement selected Data Center Hosting Migration solution. (February 2022)

The Technology Recovery Plan documents CalSTRS recovery through the three Technology Recovery Plan Phases: Activation and Notification, Recovery and Reconstitution. The Technology Recovery Plan also describes roles and responsibilities, response procedures, alternate recovery locations and required resources and supports business continuity by recovering supporting systems for business functions/processes. The Technology Recovery Plan is reviewed, updated and approved annually. (Ongoing)

Critical systems are regularly replicated from CalSTRS Headquarters primary data center to a secondary infrastructure. (Ongoing)

To ensure redundancy at Headquarters, there are multiple internet circuits that provide redundancy for staff accessing the Internet from Headquarters. (Ongoing)

CalSTRS supplies laptops to all employees and enables secure network connections for remote work capabilities to the entire organization. (Ongoing)

Risk: Reputational

The risk of reputational damage to CalSTRS caused by external or internal factors which could result in members, stakeholders and/or the public losing confidence in CalSTRS as a respected fiduciary of public funds.

Control: A - Reputational: Ethical Tone

To set and maintain a strong ethical tone for the organization, all new-hires receive a half-day classroom training on CalSTRS core values. (Ongoing)

Conduct annual training of board and staff on ethics and fiduciary responsibilities. (Recurring)

Monitor Compliance and Ethics hotline. (Ongoing)

CalSTRS employees complete an annual policy recertification acknowledgment process to ensure employees are aware of and abide by CalSTRS policies, standards and guidelines. (Ongoing)

Control: B - Reputational: Environmental Social Governance

Continue ESG discussions during Committee meetings to review sensitive investments. (Ongoing)

Develop and implement net-zero communications and outreach plan based on September 2021 TRB adoption of a net-zero pledge. (In development)

Control: C - Reputational: External Communication

Maintain crisis communication policy which requires early identification of problems and development of mitigation strategies. (Ongoing)

Develop communication strategies that address third party activists and monitor social media coverage of third parties. (Ongoing)

Control: D - Reputational: Hiring Practices

Assess and reinforce prescreening hire activities. (Ongoing)

Validation of minimum qualifications and applicant assertions. (Ongoing)

Leverage external services to further validate work and personal history of high-level hires. (Ongoing)

Control: E - Reputational: Pension Solution Project

Established Board and/or management authority for availability of funds (i.e., Annual spending plan). (Ongoing)

Integrate lessons learned from other projects and/or failures of similar size and complexity. (Ongoing)

Utilize Change Management and Transitions Management consultants. (Ongoing)

Utilize Independent Project Oversight (IPOC) and Independent Verification and Validation (IV&V) consultants. (Ongoing)

Provide regular project updates to stakeholders. (Ongoing)

Control: F - Reputational: Headquarters Expansion Project

Engage Authorities Having Jurisdiction (AHJs) in regular dialogue to educate building plan reviewers on HQE project and reduce confusion related to building design. (Ongoing)

Project team continues to ensure all change orders and adjustments fall within total approved project budget and any increase will be reviewed and approved by the TRB. (Ongoing)

Maintain governance structure for approval of all potential project costs and change orders. (Ongoing)

Develop alternate construction schedules to condense latter construction durations and reduce overhead costs. (Q2 FY 2021/22)

Secure third party building plan reviewer to provide expedited building feedback in advance of AHJ timeline. (Completed Q1 FY 2021/22)

Risk: Financial Reporting

The risk that incomplete or inaccurate financial information or weaknesses in internal control jeopardize an unqualified/unmodified audit opinion or result in significant non-compliance with standards.

Control: A - Financial Reporting: Financial Statements

Monthly reconciliation of significant accounts: Appropriations, Cash, Receivables, Fixed Assets, Contributions, Benefit Expense, Investments to ensure accurate financial reporting. (Ongoing)

Regular analyses of multiple financial reports as additional internal control measures. (Ongoing)

Consistently reconcile general ledger balances to subsidiary systems and information. (Ongoing)

Conduct quarterly review of the results as presented on CalSTRS financial statements. (Ongoing)

Collaborate with the investments branch to enhance internal control over the fair value measurement of private investments assets. (Ongoing)

Risk: Pandemic Response

The risk that CalSTRS fails to adequately implement appropriate health and safety measures during the COVID-19 pandemic which could result in employee illnesses, disruption to operations and reputational damage.

Control: A - Pandemic Response: Workforce Safety

Implement COVID-19 Testing at all CalSTRS facilities. (October 2021)

Follow current requirements as provided by various state and local health authorities such as CDC, CalOSHA, CDPH and CalHR, or health jurisdictions for the county where a CalSTRS facility is located. Making adjustments for any new recommendations, including the option to exercise a more conservative approach. (Ongoing)

CONCLUSION

The State Teachers' Retirement System strives to reduce the risks inherent in our work and accepts the responsibility to continuously improve by addressing newly recognized risks and revising risk mitigation strategies as appropriate. I certify our internal control and monitoring systems are adequate to identify and address current and potential risks facing the organization.

Cassandra Lichnock, Chief Executive Officer

CC: California Legislature [Senate (2), Assembly (1)]
    California State Auditor
    California State Library
    California State Controller
    Director of California Department of Finance
    Secretary of California Government Operations Agency